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C O N F I D E N T I A L SECTION 01 OF 02 HANOI 000374

SIPDIS
(C O R R E C T E D C O P Y - C A T I O N S AND TEXT)

SIPDIS

STATE FOR EB/OMA, EAP/MLS AND EAP/EP
TREASURY FOR ANDY BAUKOL, CAROL CARNES AND SUSAN CHUN
STATE PASS USTR DAVID BISBEE
SINGAPORE FOR SUSAN BAKER

E.O. 12958: DECL: 02/28/2017
TAGS: [EFIN](#) [ECON](#) [ETRD](#) [EINV](#) [VM](#)
SUBJECT: VIETNAM GVN COMMENTS PUBLICLY ON CAPITAL CONTROLS

REF: A. HANOI 337

- [1](#)B. HANOI 300
- [1](#)C. HANOI 290
- [1](#)D. HANOI 260

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Classified By: ECONOMIC COUNSELOR ALAN R. TOUSIGNANT, REASONS 1.4B
AND D

[1](#)1. (C) Summary: Both privately and via public statements, Government of Vietnam (GVN) officials have reiterated assertions that Vietnam has no current plan to impose capital controls on foreign investors to cool down the country's stock market. Deputy Prime Minister Nguyen Sinh Hung provided the first official government comments on the issue in the state media on February 23. While officials have asserted that stories of impending capital controls were only rumors, Vietnam's IMF representative told Econ Counselor that the State Bank of Vietnam had prepared a study on administrative measures to cool the market for a meeting of the National Monetary and Financial Policies Council on February 12. The body, chaired by DPM Hung, decided that no measures should be taken. According to local media on February 28, Prime Minister Nguyen Tan Dung issued instructions on measures to manage Vietnam securities markets transparently. End Summary.

[1](#)2. (U) On February 23, state-owned media reported Deputy Prime Minister Nguyen Sinh Hung told a meeting of the State Securities Commission (SSC) that the securities market may be "hot" at the moment, but the GVN was not considering closing or restricting the market and will not manage the securities market and investment in the market through administrative measures. DPM Hung also stressed the need to intensify inspections of licensed securities companies and revoke license certificates of any unqualified company. The report also cited the comments of the SSC Chairman Vu Bang that "management does not mean stopping but aims at securing knowledge of the capital flows of foreign investors." He also said "the SSC will require foreign investors and investment funds to re-register in the coming time to publicize reporting regulations. It will also join hands with banks to keep a watch on investment capital sources." These are the first official comments released publicly by

the Vietnamese government since rumors surfaced that the government was considering imposing capital controls to deal with an overheated stock market.

13. (SBU) In addition to the Deputy Prime Minister's comments, Bui Huy Hung, Director of International Relations in the Office of the Government (also known as the Prime Minister's Office) responded to a February 14 letter by U.S. Treasury Department Deputy Assistant Secretary Robert Dohner. In an email response to Econ Counselor on February 25, Hung referred to the February 23 statement, stating that DPM Hung "confirmed that Vietnam is not (putting in place) non-market policies of controlling foreign capital flow, as had been rumored." Hung stated that the stock market of Vietnam "is too small" but that the GVN is doing its best to develop it in a "sustainable way." The GVN looks forward to support from international donors, including the U.S. Treasury, and highlighted U.S-GVN cooperation via the USAID-administered STAR project, he added. "Please keep Mr. Dohner informed about this matter," he wrote. "I do hope to meet him in my next visit to the U.S. with my Deputy PM on March 2007."

14. (C) IMF Senior Resident Representative Il Huong Lee provided Econ Counselor on February 27 background regarding the GVN's deliberations on the controls. Lee said that the issue of capital controls in Vietnam had been raised by the "leadership" -- a group he defined as including high-level Communist Party officials, some currently within government and some not -- because "too many people were invested and too many small investors were involved, which in Vietnam means the middle of society." A significant market correction could upset this important group and lead to political instability, he said. Leaders were also concerned about instability from a rise in speculative flows from abroad and widely accepted rumors of significant amounts of insider trading. Officials were perhaps even envious of investors becoming rich from their investments and wanted to

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put a stop to their easy gains, he added.

15. (C) Lee said that the State Bank of Vietnam had written a study for the National Monetary and Financial Policies Advisory Council (NMFPAC) for a February 12 meeting, just before the Tet holidays. The study did not include specific proposals or recommendations, he said. This committee, headed by Deputy Prime Minister and former Finance Minister Nguyen Sinh Hung, includes representation from the State Bank of Vietnam, the Ministry of Finance and the Ministry of Planning and Investment. NMFPAC reviewed the study but decided not to take any action, he added. Lee said the government will likely continue watching the issue but is, quite rightly, being very cautious. He believes the GVN understands that any action it could take to implement measures would require significant coordination and transparency with all market players so that markets remain calm.

16. (SBU) In response to our question whether the IMF has given the GVN advice on capital controls, Lee said he is in touch with the GVN "on all the issues." He expects the GVN to continue to watch markets closely to see what, if any, actions should be taken. As he observed, a key problem is that GVN does not have a significant grasp of the extent to which inflows are purely speculative, come from domestic investors, or stem from foreign equity funds with billions to invest in one of the world's hottest emerging markets. Vietnam has opened itself for business by liberalizing over the last several years, but, in his view, it still lacks strong institutions to monitor and regulate its markets, leading to problems including the lack of knowledge of the sources of flows and increased risk of insider trading.

17. (SBU) According a report in Vietnam Economic Times on February 28, Prime Minister (PM) Nguyen Tan Dung has provided new instructions to manage Vietnam securities

markets. An unofficial translation of the report states that Dzung issued an official letter "emphasizing the importance of a complete regulatory framework for the securities markets to function transparently. For the time being, it is unnecessary to impose urgently capital controls on foreign exchange which the SBV proposed in the meeting of the NMFPAC held on February 12. The securities market is an important source of capital for Vietnam's development. The Ministry of Finance, the State Securities Commission, the State Bank of Vietnam, and the Government Inspectorate shall monitor and inspect to ensure compliance of the regulations by market participants, even to revoke licenses and prohibit market participants to participate in the market if required. The PM also requested the NMFPAC to study international experiences to propose solutions for Vietnam to ensure rapid and sustainable development of the security market, avoiding unstable socio-economic situation. At the same time, the PM requests the Ministry of Finance, the SBV and other bodies to apply proactively appropriate measures to reduce inflation, stabilize the Vietnam dong and reduce speculation on the market.

The measures include:

- Timely purchase of foreign exchange as planned;
- Issue government bonds and bank bills;
- Regulate recapitalization requirements and foreign exchange positions of commercial banks;
- Implement the regulated trading bands of securities transactions;
- Promulgate tax on securities activities;
- Push up of equitization (of state-owned enterprises) to increase market supply."

18. (SBU) Comment: The last measure that the Prime Minister suggested -- pushing up equitization -- meshes well with the policy alternative to capital controls suggested in Treasury Deputy Assistant Secretary Dohner's letter (reftel B) of "equitization of state-owned enterprises (to provide greater supply of equity market instruments to meet demand.)" End Comment.

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